No. 84-1620

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IN THE

# Supreme Court of the United States

**October Term, 1984**

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BOLAR PHARMACEUTICAL CO., INC.,

*Petitioner,*

*v.*

CIBA-GEIGY CORPORATION,

*Respondent.*

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**Petition for Writ of Certiorari to the United States Court of Appeals for the Third Circuit**

## PETITIONER'S REPLY BRIEF

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# TABLE OF CONTENTS


| | PAGE |
|---|---|
| Introduction | 1 |
| Point I—The Courts Below Applied Improper Legal Criteria to the Determination of the "Unprivileged Imitation" Claim | 2 |
| A. Secondary Meaning | 2 |
| B. Functionality | 5 |
| Point II—"Passing Off": The Continued Use of the Reasonable Anticipation Standard Should Be Reviewed | 7 |
| Conclusion | 10 |

## TABLE OF AUTHORITIES

PAGE

***Cases:***

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ..... 9

Ives Laboratories, Inc. v. Darby Drug Co., Inc., 455 F. Supp. 939 at 950, fn. 3 [1978] ..... 3

Ives Laboratories, Inc. v. Darby Drug Co., Inc., 601 F.2d 631, 642 (2d Cir. 1979) ..... 9

Ives Laboratories, Inc. v. Darby Drug Co., Inc., 488 F. Supp. 394 (E.D.N.Y. 1980), rev'd. 638 F.2d 538 (2d Cir. 1981), rev'd. sub. nom., Inwood v. Ives, 456 U.S. 844 (1982), aff'd. on remand, 697 F.2d 291 (2d Cir. 1982) ..... 3, 4, 5, 6, 7, 8, 10

Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 118 (1938) ..... 3, 10

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 9

***Statutes:***

Lanham Act, Section 32 (15 U.S.C. 1114) ..... 8

Lanham Act, Section 43(a) (15 U.S.C. 1125(a)) 1, 3, 7, 8, 9

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## PETITIONER'S REPLY BRIEF

### Introduction

Apparently recognizing that a clear presentation of the issues supports the granting of the writ, Respondent's Brief in Opposition is an exercise in obfuscation. (See Respondent's convoluted Counterstatement of Question Presented as example-in-chief.) It is therefore necessary to be reminded of basic principles after reading Respondent's brief.

Ciba charged Bolar with "unprivileged imitation" and "passing off"[1] under Section 43(a) of the Lanham Act and New Jersey state law.

1. These are Ciba's terms for "false designation of origin" and "contributory trademark infringement".

"Unprivileged imitation" means Bolar used Ciba's alleged trademark (the capsule colors) on Bolar's capsules. To prove "unprivileged imitation" Ciba must show both that the colors of its capsules have become a trademark (have acquired secondary meaning) and are non-functional.

"Passing off" means that pharmacists illegally substitute Bolar's product for Ciba's, and that Bolar is liable for that unlawful activity. To prove "passing off" Ciba must show that Bolar intentionally induced illegal substitution by pharmacists, or continued to sell to a pharmacist who Bolar knew was engaging in illegal substitution.

Bolar requests a writ of certiorari because the courts in the Third Circuit are applying improper legal criteria to a determination of these issues, which results in a conflict between the Third Circuit and the Second Circuit in cases with indistinguishable facts. Ciba opposes the writ, contending that Bolar is merely complaining about adverse findings of fact by the trial court.

## POINT I

### The Courts Below Applied Improper Legal Criteria to the Determination of the "Unprivileged Imitation" Claim.

#### A. Secondary Meaning

The finding of secondary meaning by the courts below, which was essential to holding Bolar liable for both "unprivileged imitation" and "passing off" under Section

43(a) of the Lanham Act and New Jersey law,[2] was based not on a finding of fact but upon the application of an inappropriate legal standard. Respondent admits that the conflict between the district court in *Ives*[3] (affirmed by the Second Circuit) and the district court in this case (affirmed by the Third Circuit) is traceable solely to the legal criteria used for determining secondary meaning. That is why Respondent must defend the legal criteria applied by the New Jersey District Court as "well settled" and "correct" (Respondent's Brief, page 18).

The conflict clearly presented to this Court for review on the issue of secondary meaning is one of law, i.e., whether the district court (affirmed by the Third Circuit) applied the correct legal standard in finding that the color of Ciba's drug capsules attained trademark significance.

The issue is whether the primary significance of the color of prescription drug capsules is to identify the source of the product, rather than the product itself, in the mind of the consumer. *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 118 (1938) and *Ives*, 456 U.S. at 851, fn. 11. Ciba argues that it is proper to decide the issue by reference to

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2. The question of whether drug capsule colors have become trademarks is central to both claims made by Ciba. Obviously there is no "unprivileged imitation" of a trademark if the colors are not a trademark, and the copying of colors cannot support the "passing off" claim if they are not indications of source. (See Judge Nickerson's discussion of this question in his first *Ives* decision. *Ives Laboratories* v. *Darby Drug Co., Inc.*, 455 F. Supp. 939 at 950, fn. 3 [1978]) Therefore, Ciba's contention that alternative holdings support the Third Circuit's decision is simply wrong. If the court below erred in finding secondary meaning, neither the "unprivileged imitation" nor the "passing off" claim survives.

3. *Ives Laboratories, Inc.* v. *Darby Drug Co., Inc.*, 488 F. Supp. 394 (E.D.N.Y. 1980), rev'd. 638 F.2d 538 (2d Cir. 1981), rev'd. sub nom., *Inwood* v. *Ives*, 456 U.S. 844 (1982), aff'd. on remand, 697 F.2d 291 (2d Cir. 1982).

the extent of sales and promotion by the originator, and copying by the competitor. Bolar contends that, in the prescription drug context where advertising and promotion do not reach the consumer, and where the consumer does not choose the product sold, those criteria make no sense. Only direct evidence, such as a survey or testimony of consumers, is truly relevant and material.

Bolar's arguments as to the inappropriateness of the legal standard used in the Third Circuit to find secondary meaning are set out at pp. 18-23 of the Petition. Respondent totally fails to deal with those arguments, which cannot be logically disputed. In addition, Respondent ignores its own failure to present survey evidence (or direct evidence) of the significance of color to the consumers of Apresazide or any prescription drug product. If the correct criteria are applied, Ciba's failure to present any direct or survey evidence on the significance of capsule color to the consumer would be fatal to its claims. (See the *amicus* brief of the Generic Pharmaceutical Manufacturers Association, pp. 6-7.)

This is not an issue of fact but a substantial and significant question of law which requires corrective action by this Court, failing which the colors of brand name drugs will be held to be trademarks despite the total absence of evidence as to the significance of drug capsule (or tablet) color in the minds of the public.[4]

4. Respondent is partially correct in stating that this Court failed to finally resolve the issue in *Ives*. There the Court restated the importance of determining the significance of color in the mind of the consumer (456 U.S. at 851, n. 11) but failed to choose between the legal criteria to be applied in deciding the issue. The result of that omission is the problem now confronting the drug industry, where the Third Circuit adopts one legal principle and the Second Circuit another, causing a conflict in decisions despite identical fact patterns.

**B. Functionality**

The Petition does not seek to review findings of fact on the issue of functionality. As emphasized in the petition, the facts of this case, the *Ives* case and virtually all generic drug look-alike cases are the same. Only the conslusions differ.

Respondent does not seriously dispute the Petitioner's central contention that the facts of this case are virtually identical to *Ives*.[5] Respondent expressly admits in its Brief in Opposition that the result in this case differs from the result in *Ives* because the district courts in New York and New Jersey "reached different factual *conclusions* with respect to the issue (of functionality)" (p. 14) (emphasis added). It is the *conclusions* that differ, not the factual findings.

The district courts in New York and New Jersey come to different conclusions based on identical facts because they apply different legal standards to those facts. The situation is analogous to a jury trial in a negligence case where the finder of fact first decides what the facts are (e.g., was the traffic light red or green in a particular direction at the time of the accident) and then goes on to apply the law

5. Respondent's only attempt to distinguish this case from *Ives* on their facts is tucked away in the middle of footnote 15 of Respondent's Brief (p. 17). There it is claimed that a generic equivalent of Apresazide made by another company is sold in colors different from those chosen by Ciba, whereas the drug in the *Ives* case, Cyclospasmol, was hard to sell in different colors. Reliance on this petty distinction is tantamount to an admission that the cases are fundamentally indistinguishable. Moreover, the fact that a company other than Bolar choose to compete with Ciba by distinguishing its product from Ciba's should not preclude Bolar from competing by emphasizing the similarity of its product to Ciba's, and competing on the basis of a lower price. (See Petition, pp. 26-28).

given by the judge to those facts to reach a *conclusion* of fact as to the parties' negligence. If the judge makes an error in his charge, it is a mistake of law which affects the jury's ultimate factual conclusion. In the case at bar the trial judge made the same basic factual findings as the trial judge in *Ives,* e.g., color was arbitrarily chosen in the first instance by Ciba and by Ives, advertising reaches only physicians and not patients, patients suffer anxiety when receiving pills in an unexpected color, anxiety can be assuaged by informing the patient that it is the same drug, patients use drug color to follow prescription instructions and to communicate with doctors, etc. The error made by the trial judge in this case was to apply inappropriate legal criteria to those facts and thereby reach a factual conclusion of non-functionality at odds with the conclusion of the courts in the Second Circuit. Therefore, as the Petition asserted (at pp. 24-25), Bolar seeks review of the legal standards applied in the Third Circuit (summarized at the bottom of p. 25 of the Petition and discussed at pp. 26-29), not the factual findings of the trial court.

Two courts cannot consider virtually identical facts and reach opposite conclusions unless they apply different legal standards to those facts. The application of improper legal standards to the determination of whether the color of prescription drug capsules and tablets has in the mind of the consumer attained secondary meaning, and if so whether such colors are non-functional, in a controversy with such far reaching social and economic implications, is an appropriate subject for review by this Court.

## POINT II

### "Passing Off": The Continued Use of the Reasonable Anticipation Standard Should Be Reviewed.

Beneath the confusing rhetoric, Respondent claims that the use of the "reasonable anticipation" standard for finding Bolar vicariously responsible for presumed (not proven) illegal substitution by pharmacists, is harmless because the trial judges' finding of "intent" is sufficient to support liability under the proper standard set forth in *Ives*. 456 U.S. at 854 (fn. 13), 860 and 861. Secondly, Respondent argues that the "reasonable anticipation" standard survives *Ives* if it is applied to Section 43(a) claims or claims brought under state laws of unfair competition.

The trial court's finding of "intent" by Bolar to facilitate "passing off" is an attempt to shield the decision from review. It is significant that Ciba's counsel actually drafted the trial court's opinion (see App. 32, fn. 10), and obviously had in mind the avoidance of reversal on appeal. Despite counsel's admiration for his own cross-examination of Bolar's president (see Respondent's Brief, p. 22), there is not a scintilla of evidence cited to support a finding that Bolar intended pharmacists to use its product illegally. Bolar's president testified that he thought use of Ciba's colors would increase the sale of the Bolar product. There is nothing wrong with that. As the Third Circuit majority noted, "Bolar's argument that copying of APRESAZIDE's trade dress is in the public interest is not necessarily a frivolous assertion. . . ." (App. 78, fn. 5) The testimony of Bolar's president, undistorted by Respondent, was simply that Bolar wanted to increase sales by selling a more useful (i.e., functional) product. That necessitated use of the

colors Bolar considered functional. To twist his statement into support for a finding of intent to induce illegal substitution is nothing less than intellectual dishonesty.

However, Bolar need not "quibble" about the lack of support for the trial judge's finding of intent to pass off. It is clear from *Ives* that more than intent is needed to support a finding of contributory trademark infringement. (See Judge Giles' analysis at App. 96-97.) In this case there is nothing except copying on which to base a finding of contributory infringement. There is no other act by Bolar in the record. Thus, the mischief of the "reasonable anticipation" standard is that it permits a finding of vicarious liability (contributory trademark infringement) in the absence of evidence that Bolar did anything to *induce* illegal substitution. The continued use of the "reasonable anticipation" standard is far from harmless—applying that incorrect standard is the only way Bolar can be held liable for "passing off" based on nothing more than the act of copying the Apresazide colors. The "reasonable anticipation" standard was rejected in *Ives* to avoid the possibility of finding a manufacturer vicariously liable for a pharmacist's wrongful acts unless the manufacturer *did something* to induce those acts. The courts below seek to avoid that holding in *Ives* by continued use of the "reasonable anticipation" standard. Unless this case is reviewed, generic drug manufacturers will be vicariously liable for the acts of pharmacists although the manufacturers do nothing more than copy the brand name colors. That is the result this Court in *Ives* attempted to prevent.

The Respondent's arguments that the "reasonable anticipation" standard survives in Section 43(a) claims because *Ives* dealt with a Section 32 claim has already been

dealt with in the Petition. (See p. 14.) Respondent has failed to answer the point made by Judge Giles quoted in the Petition, and it need not be repeated here.

Respondent argues that the "reasonable anticipation" standard survives in state law claims. This ignores Respondent's concession that the state law claims are identical to the Section 43(a) claims (Respondent's Brief, p. 3, fn. 4). Moreover, state law cannot prohibit copying articles in commerce unprotected by trademark, patent or copyright. *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) Respondent's assertion that the Second Circuit in *Ives* held that *Sears* and *Compco* permit the prohibition of copying under state laws of unfair competition (Respondent's Brief, p. 24, fn. 21) is a misstatement of Judge Friendly's opinion. The Second Circuit said that *Sears* and *Compco* did preclude such relief under state laws of unfair competition, but did not necessarily preclude relief under the Lanham Act. *Ives Laboratories, Inc.* v. *Darby Drug Co., Inc.*, 601 F.2d 631, 642 (2d Cir. 1979) If state laws can prohibit copying of an unpatented, unregistered, uncopyrighted feature of an article in commerce, such as drug capsule colors in the case at bar, then *Sears* and *Compco* are totally meaningless and should be expressly repudiated.

As the *amicus* briefs point out, the New Jersey decisions have radically altered a long standing industry practice of selling generic drugs in the same colored capsules and tablets as their brand name counterparts. It is particularly important to review a holding of liability based on New Jersey state law which is in conflict with this Court's interpretation of the Lanham Act, where the effect of the

lower court's decision is to reverse an industry practice and establish a national prohibition against selling generic drugs in the only colors the consuming public has come to associate with their respective ingredients and their therapeutic effect.

## Conclusion

The sole purpose of this Reply Brief is to answer the points raised by Respondent in its Brief in Opposition. It is not the Petitioner's intention in this Reply Brief to repeat or to summarize the reasons for the allowance of the writ. Those reasons are stated fully in the Petition, and it is respectfully requested that the Court refer to the Petition, and not to this Reply Brief, for the complete statement of Petitioner's position on the issues presented by this case.

For the reasons stated in the Petition, in the *amicus* briefs, in Judge Giles' dissent, in Judge Nickerson's opinions in *Ives* and in this Court's opinions in *Ives* and *Kellogg,* Petitioner requests the allowance of a writ of certiorari.

Dated: New York, New York
May 14, 1985

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